DKW SYSTEMS CORPORATION

1998 ANNUAL REPORT

INFORMATION

TECHNOLOGY

EXCELLENCE

GUARANTEED

SYSTEMS INTEGRATION SERVICES:

Project Management
Application Development
Application Outsourcing
Software Implementation,
  Customization and Support
Database Analysis, Design, and Administration
Year 2000 Projects
Prime Contracting and Sub-Contracting

TOOLS:

SAP, Peoplesoft, and ORACLE Applications
PowerBuilder, Delphi, C++, Visual Basic
Microsoft Windows, NT and Other Products
Database Products - Sybase, Oracle, and SQL Server
Document Imaging and Management Software

CHANNEL PARTNER PRODUCTS:

ONYX Software Customer Management Solutions
Microsoft, Borland, and Powersoft Development Tools

ABOUT DKW SYSTEMS

DKW Systems Corporation is a computer systems consulting company which provides a broad range of consulting and software development services. The Company has been serving Alberta based clients for 22 years and has offices in Edmonton and Calgary. DKW has a broad client base representing the oil & gas, utilities, healthcare, telecommunications, manufacturing, municipal and provincial government sectors. Key services offered include analysis, design, development, implementation, and support of computer based information systems. DKW also designs, creates, and markets proprietary software in various niche areas.

DKW has a professional staff of 110 employees and contracted professionals engaged at a number of major corporations and entities. We are one of the oldest and largest consulting companies in Western Canada, and are ranked among the top 35 independent computer service companies in Canada.

OUR MISSION

IT Excellence ... Guaranteed

That is DKW's objective. We provide premiere computer technology consulting for the development and support of comprehensive solutions for our clients. And we back that up with superior quality assurance. We dedicate ourselves to ensuring that our clients receive maximum returns on existing investments as well as the optimal benefits of emerging technology. Through client relationships based on fair and open communication, DKW strives to:

- establish ourselves as technological leaders in the computer solutions marketplace
- create advanced computer solutions that will address complex client challenges
- offer a flexible approach that fits the different needs of each client
- furnish an above average return for our shareholders in a manner which is ethically and socially sound

DKW provides an environment for our people, which fosters and rewards teamwork, honours creativity, and promotes personal and professional growth. With the active support of staff, consultants and our internal quality assurance group, we feel DKW delivers on our mission by:

"Creating Value For Our IT Clients ... Guaranteed"

HIGHLIGHTS

GROSS REVENUE
Thousands Canadian $

TOTAL ASSETS
Thousands Canadian $

NET INCOME <LOSS>
Thousands Canadian $

NET OPERATING CASH FLOW
Thousands Canadian $

SHAREHOLDERS' EQUITY
Thousands Canadian $

Left: John Rist
Right: Al Saurette

Fiscal 1998 was a year of transition and changes. During the year several key management and staffing changes were made with the result that DKW is now better positioned to focus on our profitable core business, consulting in Calgary and Edmonton. The following summarize our key financial performance benchmarks:

- Overall revenues increased 8% from $8.4 million to $9 million.
- Operating income from the Consulting Division increased 4% from $963,000 to $998,000.
- CLEIMS revenue was below expectation, causing a $658,000 pre-tax loss for the division.
- As a result, net income decreased from $214,000 to a net loss of $281,000.

CONSULTING DIVISION

Consulting and systems integration activities continue to be the cornerstone of DKW's success. Both the Calgary and Edmonton branches encountered some flat business periods during the year but exited the year with strong gains. The following activities reaffirm our renewed focus on consulting:

Creation of the Consultant Advisory Board
This collegial group of DKW's most senior consultants was formed to improve communications with our contractors to better serve their needs.

Addition of marketing/ recruiting skills
To drive more consulting business in Calgary, resources were added to better cover the opportunities in the city.

Quality Assurance role defined
To ensure that clients were receiving optimum service from DKW an independent contractor was charged with developing an appropriate Quality Assurance process.

Marketing coach position established
To add motivation and hone the skills of our marketers and recruiters, the part time services of a senior sales person were retained.

Other staff changes
During the year the positions of Branch Manager and Training Director in Calgary were eliminated to reduce expenses. Some former staff positions were moved to a contract basis and several staff changes took place to optimize service delivery.

Strategic partnerships established
We continue to search for high margin relationships which we can leverage within our consulting practice. ONYX, PeopleSoft and ORACLE are examples.

CLEIMS DIVISION (SOFTWARE PRODUCTS)

CLEIMS revenue was below projection. In spite of continuing to spend substantially on marketing efforts, the sales cycle was longer and software sales opportunities were fewer than anticipated. To minimize operating losses, starting in the second half of the year, major reductions in spending were achieved through attrition and elimination of all discretionary expenses. The decision to write off previously capitalized development expenses increased the loss during the 1998 financial year, but was based on the uncertainty surrounding the length of the sales cycle and the corresponding impact on future earnings. Significant events during the year include:

- A new version (CLEIMS 1.1) providing significant new features was completed.
- A single user version of the product was developed providing lower entry level pricing for CLEIMS.
- Revenue of $323,000 was lower than anticipated. This, combined with project costs of $666,000 and operating expenses of $314,000 resulted in a pre-tax loss of $657,000.
- Project positions reduced from 8 as of January, 1997 to 4 at present. Version 1.2 will be completed in May, 1998 and further efficiencies in development effort will be achieved.

OUTLOOK

For the consulting division, we continue to run ahead of our 1999 fiscal plan and prior year achievements. The Edmonton branch is strongly ahead of plan with Calgary slightly ahead to the date of writing. DKW's traditional marketing focus has been changing in order to be successful in competing in project work, which attracts higher margins. Recently, clients have also been contracting out or outsourcing entire components of their computer departments. As in project related work, these contracts are awarded on a full solution capability basis rather than a commodity supply basis. DKW is actively involved in various stages on several major outsourcing proposals with both existing clients and new clients, and that could result in a substantial increase in business volumes.

We continue to defocus the software development activities and look for overall efficiencies. We are presently attempting to leverage the investment in the CLEIMS software by developing an imaging/document management consulting practice. Considerable information has been gained in this high growth sector over the last two years. DKW has a unique opportunity to benefit from this growth, as most of it comes from major corporations, which is DKW's client base.

PROPOSED SALE TO APG
Solutions & Technologies Inc.

Management's objective throughout the 1998 fiscal year was and is to maximize shareholder value. As a result of the growth in consulting and the under performance of the CLEIMS division it is our opinion that, in spite of the strength of our core business, the superior alternative was to grow by acquisition, merger, or sale of the Company. Opportunities were explored with over 20 companies over a seven month period. This has resulted in DKW signing a definitive agreement on April 17th, 1998 with APG Solutions & Technologies Inc. for the proposed acquisition of DKW's issued and outstanding shares at a price of $0.47 per DKW share. The proposed transaction will be effected under a Plan of Arrangement and must be approved by DKW's shareholders at DKW's Annual and Special General Meeting expected to be held on June 25, 1998.

The Board of Directors of DKW has unanimously determined that the Arrangement is in the best interests of DKW and offers superior value to the DKW Shareholders and has authorized submission of the Arrangement to DKW Shareholders for approval.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors of DKW, I would like to thank our employees, consultants, clients, strategic partners and shareholders for their continued support and commitment.

Respectfully submitted,

Allen G. Saurette
President and Chief Executive Officer
DKW Systems Corporation

RESULTS OF OPERATIONS

(In Thousands Canadian, except per-share data)

	1998	1997	1996
Revenue	**9,010**	8,381	6,501
Operating income - Consulting Division	**998**	963	615
Operating income (loss) - CLEIMS Division	**(658)**	(119)	-
Corporate, amortization, and restructuring costs	**(780)**	(441)	(369)
Income (loss) before income taxes	**(440)**	403	246
Net income (loss)	**(281)**	214	139
Earnings (loss) per share per share	**(0.03)**	0.025	0.017

Revenue for the year ending January 31, 1998 of $9,010,000 improved 8% over the previous year. Combined revenue from the consulting operations in Calgary and Edmonton increased by 6% due to growing demand for DKW's client/server development expertise and project management capabilities, plus favorable results from highly effective marketing and recruiting practices. Revenue mix continued to shift in favor of Company managed development assignments, which allowed consulting gross profit margins to improve from 23.8% to 24.3%, extending the improvements experienced over each of the past 4 years. CLEIMS software sales of $323,000 increased by 77% in its first full year of operation compared to last year's sales of $183,000.
Operating income from the Consulting Division of $998,000 increased by 4% over last year, and by more than 62% from two years ago. This corresponded with a revenue increase of 6% over last year, and 34% from two years ago. DKW hired an additional marketer and recruiter in the latter part of the year due to the significant revenue opportunities. This strategic decision resulted in higher costs for the year just ended, and we are seeing strong benefits from this decision in the first quarter of the upcoming year with revenue growing by 16%.

The CLEIMS Division incurred an operating loss of $658,000 compared to a $119,000 loss in the previous year. This includes the remaining $254,000 charge to write-off all deferred development costs incurred in the first six months of the year to provide enhanced features requested by clients, with Version 1.1 being released in July, 1997. Staff requirements were reduced from nine at the beginning of the year to a present complement of four as major development projects were completed. CLEIMS marketing costs were $190,000 higher than last year, as marketing costs last year were only incurred from September 1996 onward. CLEIMS revenue of $323,000 was below management expectations but the nature of our clients provides good national exposure and followup sales opportunities. CLEIMS had significant sales during the year to the following: Department of Justice, *Halifax* (our second and third additional sales); Calgary Police Service; RCMP K Division, *Alberta*; RCMP F Division, *Saskatchewan*; RCMP Commercial Crime, *Calgary.*

Corporate, amortization, and restructuring costs of $780,000 increased by $339,000 during the year, of which $133,000 was due to one-time hiring and termination costs associated with the appointment of Al Saurette as President in July, 1997. Amortization of capital assets increased by $35,000 as a relatively high level of capital expenditures served to expand and enhance the CLEIMS development facility, and leasehold improvement costs were incurred during our office expansion as part of our lease renewal in September, 1997. Interest on bank and other long term debt was insignificant. The Company also incurred $26,000 in costs while exploring merger/acquisition/sale opportunities with over 20 companies, which resulted in a definitive agreement with APG Solutions & Technologies Inc., as explained earlier in the President's Report.

The income tax recovery for the current year $159,000 relates to the operating loss. Over 76% of the total income tax recovery was a recovery of deferred development costs. In summary, the net loss of $281,000 represents a decrease of $495,000 from the previous year primarily due to the CLEIMS division loss of $658,000 and one-time management restructuring costs of $133,000. Favourable improvements were realized from the Consulting Division. The combination of these factors resulted in a loss per share of 3 cents compared to earnings per share last year of 2.5 cents. Over $750,000 of costs incurred this year are of a one-time nature, thus positioning the Company for a very profitable upcoming year.

LIQUIDITY AND CAPITAL RESOURCES

(In Thousands Canadian, except percent data)

	1998	1997	1996
Total assets	**1,717**	1,973	1,349
Working capital	**386**	460	297
Shareholders' equity	**717**	841	507
Net operating cash flow	**9**	223	2
Return on average shareholders' equity	**(36.1)%**	31.7%	31.8%

Net operating cash flow was $9,000 as compared to the previous year's $223,000, for a decrease of $214,000.

Capital purchases of $254,000 included leasehold improvements of $132,000 which were partially offset by $75,000 of tenant inducements. The lease renewal allowed expanded space to meet business growth demands as well as allowing a consolidation of our offices into a contiguous plan on one floor. The remaining capital asset purchases of $122,000 provided infrastructure enhancements to the CLEIMS development facility and the routine upgrading of systems in the consulting group.

Working capital decreased $74,000 to $386,000, for a year-end working capital ratio of 1.41 to 1. This compares to a ratio of 1.45 to 1 in the previous year and marks a steady improvement over the 3 years prior.

The Company periodically drew on its line of credit to accommodate minor working capital fluctuations, however by year end no bank debt was outstanding and cash on hand totaled $142,000. Accounts receivable decreased during the year by $140,000 to $1,137,000. Receivable turnover rates remain favorable, and no provision for bad debts is required.

During the year 745,000 new shares were issued in respect of a private placement (250,000 shares) and the exercising of various stock options (495,000 shares). Total shares outstanding at January 31, 1998 number 9,633,000.

OUTLOOK

The revenue growth experienced in the last year was the result of carefully developed programs and expanding infrastructure, and from capitalization on the many opportunities which the company regularly identifies. Access to new opportunities continues unabated, and the Company is targeting revenue growth of at least 20% with additional upside from significant projects being bid on. As such, earnings growth should be dramatic.

The Company's core consulting operation will continue to expand profitably by offering its professional services in both traditional and new technologies. The level of marketing sophistication continues to improve in tandem with growth of marketing and recruiting manpower.

The principal marketing thrust next year will focus on more profitable development projects, while other business development activities will serve to leverage the existing broad array of consulting assignments.

Last year saw sizable investment in the development and marketing of the CLEIMS software products. The Company is now well into the lengthy sales cycle of the police and near police agencies and significant benefits should soon be realized from this sector. The Company has been actively pursuing opportunities for the CLEIMS technology beyond the policing area, including law firms, forensic accounting firms, career search firms, federal & provincial government departments, human resource departments of large organizations, and several oil & gas companies, while at the same time exploiting the name recognition generated within the policing community. With a fully commercialized version of CLEIMS now complete and with a sound marketing program in place, the software products division should become fully self sustainable in the upcoming year.

Earnings growth from the consulting group along with the potential from the CLEIMS division will ensure that the Company is afforded the best possible growth opportunity.

MANAGEMENT'S REPORT

To the Shareholders of DKW Systems Corporation

The financial statements of DKW Systems Corporation were prepared by management in accordance with accounting principles generally accepted in Canada and necessarily include some amounts that are based on management's best estimates and judgments.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors and the Board has approved the financial statements.

Allen G. Saurette
President & CEO

John Rist
Vice President, Finance and Administration

AUDITORS' REPORT

To the Shareholders of DKW Systems Corporation

We have audited the balance sheets of DKW Systems Corporation as at January 31, 1998 and 1997 and the statements of income , retained earnings, and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at January 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants

Calgary, Alberta,
March 20, 1998

BALANCE SHEETS

as at January 31	**1998**	1997
ASSETS		
Current assets		
Cash	$141,540	$142,212
Accounts receivable	1,137,465	1,276,596
Prepaid expenses	54,438	52,259
	1,333,443	1,471,067
Deferred development costs (note 2)	-	267,089
Capital assets (note 3)	383,807	235,158
	$1,717,250	$1,973,314
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$849,145	$875,068
Income taxes payable	-	52,200
Deferred revenue	83,036	82,585
Current portion of deferred lease inducements	14,954	1,488
	947,135	1,011,341
Deferred lease inducements (note 4)	53,585	-
Deferred income taxes	-	121,000
	1,000,720	1,132,341
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	665,046	508,746
Retained earnings	51,484	332,227
	716,530	840,973
	$1,717,250	$1,973,314

Approved On Behalf Of The Board

Director

Director

STATEMENTS OF INCOME

for the Years ended January 31

	1998			1997		
	Consulting	**CLEIMS**	**Total**	Consulting	CLEIMS	Total
Revenue	$ 8,687,658	$ 322,803	$ 9,010,461	$ 8,197,970	$ 183,106	$ 8,381,076
Direct costs	6,576,848	665,808	7,242,656	6,247,046	154,454	6,401,500
Gross profit (loss)	2,110,810	(343,005)	1,767,805	1,950,924	28,652	1,979,576
Operating expenses	1,112,776	314,490	1,427,266	988,352	147,996	1,136,348
Operating income (loss)	998,034	(657,495)	340,539	962,572	(119,344)	843,228
Corporate administration			542,019			369,916
Management restructuring costs			133,000			-
Amortization of capital assets			105,135			70,693
			780,154			440,609
Income (loss) before income taxes			(439,615)			402,619
Provision for (recovery of) income taxes (note 8)						
Current			(37,872)			85,508
Deferred			(121,000)			103,220
			(158,872)			188,728
Net income (loss) for the year			$(280,743)			$213,891
Income (loss) per share			$(0.03)			$0.025

STATEMENTS OF RETAINED EARNINGS

for the years ended january 31

	1998	1997
Retained earnings - beginning of year	$332,227	$118,336
Net income (loss) for the year	(280,743)	213,891
Retained earnings - end of year	$51,484	$332,227

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	1998	1997
Operating Activities		
Net income (loss) for the year	$(280,743)	$213,891
Items not affecting cash		
Amortization of capital assets	105,135	70,693
Amortization of deferred development costs	253,796	36,612
Amortization of deferred lease inducements	(7,719)	(2,554)
Deferred income taxes	(121,000)	103,220
Loss on sale of fixed assets	-	634
	(50,531)	422,496
Net change in non-cash working capital *	59,280	(199,347)
	8,749	223,149
Financing Activities		
Issuance of common shares	156,300	119,900
Lease inducements	74,770	-
Government grant	-	29,825
Investment tax credits	-	25,275
Repayment of long-term debt, net	-	(1,447)
	231,070	173,553
Investing Activities		
Deferred development costs	13,293	(296,381)
Acquisition of capital assets	(253,784)	(139,254)
	(240,491)	(435,635)
Decrease in cash during the year	(672)	(38,933)
Cash - beginning of year	142,212	181,145
Cash - end of year	$141,540	$142,212

**Non-cash working capital balances related to operations consist of accounts receivable, prepaid expenses, accounts payable and accrued liabilities, income taxes payable and deferred revenue.*

1. ACCOUNTING POLICIES

Deferred Development Costs

The corporation capitalizes costs of developing proprietary software and methodologies on the basis of commercial marketability. Deferred costs are charged against income based on projected sales over a period not exceeding three years, or when it is determined that these costs will not be recovered by related future revenue.

Capital Assets and Amortization

Capital assets are carried at original cost less accumulated amortization. Amortization is calculated at rates which will reduce the original cost to estimated residual value over the useful life of each asset.

Computer and office equipment	30%	Declining balance
Computer software	50%	Declining balance
Furniture and fixtures	20%	Declining balance
Leasehold improvements		Straight-line over the life of lease

Deferred Lease Inducements

Lease inducements received are deferred and amortized to reduce rental expense over the term of the lease.

Deferred Income Taxes

The company uses the deferral method of income tax allocation. Deferred income taxes arise from timing differences between financial and tax reporting, and relate principally to amortization of capital assets and share issue costs.

Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Exchange differences, other than those relating to long-term debt, are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date. Exchange differences arising on the translation of foreign currency denominated long-term debt are deferred and amortized over the remaining life of the long-term debt.

Income Per Common Share

Income per common share has been calculated using the weighted average number of shares outstanding during the year. The effect of the conversion of all stock options issued and outstanding at the year-end would not have a materially dilutive effect on the current income per share.

Revenue Recognition

Advance payments received under contracts are deferred and brought into income as work under contracts is performed.

Investment Tax Credits

Investment tax credits arising from research and development activities are recognized when there is reasonable assurance of recovery and are accounted for as a reduction of related costs.

2. DEFERRED DEVELOPMENT COSTS

	1998	1997
Deferred development costs, net	$265,295	$333,701
Accumulated amortization	265,295	66,612
Net book value	$ -	$267,089

During the year management determined that there is uncertainty that these costs will be recovered by related future net revenue and, accordingly, wrote off the remaining deferred development costs.

3. CAPITAL ASSETS

	1998		1997	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment & software	$265,707	$ 47,147	$563,311	$372,418
Furniture & office equipment	128,721	84,534	113,791	75,353
Leasehold improvements	132,065	11,005	122,303	116,476
	$526,493	$142,686	$799,405	$564,247
Net book value		$383,807		$235,158

4. DEFERRED LEASE INDUCEMENTS

	1998	1997
Deferred lease inducements amortized to reduce rental expense over the term of the lease at $14,954 per annum until August 2002	$68,539	$ -
Deferred lease inducements amortized to reduce rental expense over the term of the lease at $2,558 per annum until August 1997	-	1,488
	68,539	1,488
Less: current portion	14,954	1,488
	$53,585	$ -

5. CAPITAL STOCK

Authorized

Unlimited number of common voting shares without nominal or par value
Unlimited number of "first", non-voting, preferred shares
Unlimited number of "second", non-voting, preferred shares
Unlimited number of "third", non-voting, preferred shares
Unlimited number of "fourth", non-voting, preferred shares

	1998		1997	
	# of Shares		# of Shares	
Common shares issued				
Balance, beginning of year	8,887,767	$508,746	8,222,767	$388,846
Issued for cash (note 5(a))	250,000	75,000	500,000	95,000
Issued for cash on exercise of options	495,000	81,300	165,000	24,900
Balance, end of year	9,632,767	$665,046	8,887,767	$508,746

a) Private placement

During the year, the Company issued 250,000 shares by way of private placement at price of $0.30 per share to the president and director.

5. CAPITAL STOCK (continued)

b) Stock options

The Company has granted options to purchase common shares to certain of its directors, employees and to a financial advisor. These options outstanding as at January 31, 1998 and 1997 were as follows:

As at January 31, 1998

Expiry Date	Exercise Price Per Share	# of Common Shares
August 31, 1998	$0.36	87,000
December 31, 1998	$0.15	40,000
December 31, 1999	$0.18	95,000
December 31, 1999	$0.50	10,000
July 2, 1999	$0.38	100,000
December 31, 2001	$0.35	520,000

As at January 31, 1997

Expiry Date	Exercise Price Per Share	# of Common Shares
August 31, 1998	$0.36	87,000
December 31, 1998	$0.15	300,000
December 31, 1999	$0.18	330,000
December 31, 1999	$0.50	30,000

6. CONTINGENT LIABILITY

During 1993 a former officer and director of the Company filed a Statement of Claim against the Company for damages in the amount of approximately $100,000 for wrongful dismissal during 1992. Management believes it has complete defense against this action and hence no provision has been made for this potential liability in these financial statements.

7. COMMITMENTS

The Company is committed under the terms of non-cancellable operating lease agreements to minimum lease rentals for its premises as follows:

1999	$ 96,157
2000	96,157
2001	92,472
2002	91,155
2003	53,174
	$ 429,115

8. INCOME TAXES

The Company has in 1998 applied $13,293 of investment tax credits (1997 - $24,488) resulting from research and development expenditures incurred in prior years to federal income taxes payable, and has reduced deferred development and capital asset costs by the same amount. The Company has $64,000 of investment tax credits available which may be used to reduce federal taxes payable.

The Company's provision for income taxes is made up as follows:

	1998	1997
Provision for (recovery of) income taxes at statutory rates	$(196,072)	$179,568
Increase (decrease) due to non-deductible expenses for tax purposes	16,496	13,222
Other	-	(4,062)
Unrecognized benefit of losses carried forward	20,704	-
Actual provision for (recovery of) income taxes	$(158,872)	$188,728

The Company has allowable capital losses of $151,000 (1997 - $151,000) which can be carried forward indefinitely to be applied against future capital gains.

9. RELATED PARTY TRANSACTIONS

During the year the Company incurred legal fees for services rendered in the normal course of business of $27,004 (1997 - $14,221) to a firm in which a partner is a director, and $9,985 in consulting fees to two directors (1997 - $0).

10. GOVERNMENT ASSISTANCE

During the year the Company has not received any form of government assistance. In the previous year the Company received $55,100 of which $49,452 was credited against deferred development costs and the balance $5,648 was credited against capital assets.

11. FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the balance sheet consist of cash, accounts receivable, and accounts payable and accrued liabilities, whose fair values approximate their carrying amounts due to the short-term maturity of these instruments.

12. SUBSEQUENT EVENTS

On March 5, 1998, the Company signed a Letter of Intent under which all of the Company's issued and outstanding shares are proposed to be acquired by APG Solutions & Technologies Inc. for a proposed purchase price of $0.47 per share. This transaction is subject to approval by both companies and regulatory authorities. The Company has agreed to not solicit competing offers during the due diligence period ending March 31, 1998 and will pay a $250,000 break-up fee in the event that the Company enters into negotiations with other potential bidders prior to that date.

CORPORATE INFORMATION

January 31, 1998

DIRECTORS

Dr. Paul Camwell, P Eng
Calgary, Alberta

Wilf P. Craats, CA
Calgary, Alberta

Alex Raczenko (1)
Calgary, Alberta

Allen G. Saurette
Calgary, Alberta

Edward C. Forrest (1)
Calgary, Alberta(1

Michael J. Perkins, LL.B. (1)
Calgary, Alberta

(1) member of audit committee

OFFICERS AND SENIOR MANAGEMENT

Allen G. Saurette
President & Chief Executive Officer

Kenneth W. Rynbend
Director, Operations

John Rist, CMA
Vice President, Finance & Administration

Michael J. Perkins
Secretary

Cam D. Connor
Branch Manager, Edmonton

LEGAL COUNSEL

Ogilvie and Company
Calgary, Alberta

BANKERS

Canadian Imperial Bank of Commerce
Calgary, Alberta

AUDITORS

Coopers & Lybrand
Calgary, Alberta

ALBERTA STOCK EXCHANGE

Trading Symbol
"DKW"

REGISTRAR & TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

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For up to date news and more detailed information about the Company visit our web page at:
http://www.dkw.com

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